

for each of the three study areas. The calculation of these costs and cost factors, appearing in Lines 1 through 23 of the Investment and Cost Data schedule, are described below.

1. Central Office Equipment - Investment and material cost of equipment required at the central office for the STP.
2. Net Salvage Value - Reflects the proportion of COE investment that is recoverable at the expiration of the book life of the equipment.
3. Net Material Cost - Total material cost less net salvage value.
4. Central Office Equipment Engineering Labor - Total of the labor costs associated with the design of the central office equipment.
5. Central Office Equipment Installation Labor - Total of the labor costs associated with the installation of the central office equipment.
6. Total Installed Cost - Represents the total investment required for the service.
- 7-9. Total Non-Reusable Cost - Sum of the installation, engineering and removal costs.
10. Total Net Investment-Installed Cost less net salvage.
11. Central Office Equipment Depreciation - Annual depreciation expense based on the book life of the equipment. The annual cost factor (% of the total investment column) is computed as one divided by the book life.
12. Return - The sum of average annual investment times 11.25% divided by the revenue life.

13. **Federal and State Income Tax** - The average annual tax expense, calculated using the annual return and appropriate tax factors. Tax computations are displayed on the "Return and Income Tax Calculations" schedule.
14. **Annual Non-Recoverable Cost** - Reflects a portion of the investment and labor costs which will be recovered within the minimum service period. The non-recoverable costs are computed as the present worth of capital (Net Investment) plus Income Tax effect less the proposed nonrecurring charge, spread over the book life (using a factor of 11.25%) and net of depreciation, return and tax expenses.
15. **Maintenance** - Annual maintenance expense based on annual expense factors for central office equipment.
16. **Administration** - Annual general and administrative expenses were developed using each company's overall administrative expense factor, including customer operations, corporate operations, plant non-specific and other general administrative expenses.
17. **Other Taxes** - Annual tax expenses other than federal and state income taxes.
18. **Other Expenses** - Other miscellaneous expenses.
19. **Total Annual cost** - Sum of all annual expenses (Lines 11-18). This is the fully distributed costs of providing these services in California, Illinois and Indiana.
- 20-23. **Proposed Nonrecurring and Monthly Recurring Charge** - Displays monthly recurring cost, the proposed monthly charge, and the proposed monthly unit cost/present value analysis.

### Return and Income Tax Calculation - RSTP Port Termination

This schedule contains detailed calculations of the annual return and income tax amounts.

### Demand and Revenue Analysis - RSTP Port Termination

Demand for RSTP Ports was established for the first year by surveying our customers and requesting their input relative to demand units. GTE estimated future service growth for years two and three. This schedule depicts projected demand and net revenues on an annual basis for this new rate element in each of the three study areas. There are no revenue losses attributable to other services, as the RSTP Port Termination is a stand alone requirement.

The net revenue analysis included in this schedule displays the projected annual revenue for the RSTP Port Termination rate element for a three-year period. In all cases, the proposed rate is expected to generate additional switched access net revenue, calculated on a present value basis over a three-year period.

Nonrecurring Charge - RSTP Port Termination

The RSTP service establishment charge recovers costs of the physical connection of the dedicated switched access facility to the RSTP, the assignment of ports, routing numbers, changes and additions to the routing tables, screening of accessible point codes, and the testing of sample data over this link.

Conclusion

The proposed rates as discussed herein are demonstrated to be fully cost-based, reasonable and in compliance with Sections 61.38 and 61.49 of the Commission's Rules for price cap carriers.

#### IV. Financial Analysis

Line Information Data Base (LIDB) Query service is a new service offering and consists of two new rate elements: the LIDB Query Transport charge and a LIDB Query charge. The LIDB Query Transport charge will recover the costs associated with the transport of the query and response between the GTOCs' RSTP and SCP. Included in these costs is a proration of the RSTP switching functionality, as discussed in the description of costs recovered by the RSTP Port Termination rate element on Page 15 of the Description and Justification for CCS7 Access service, Transmittal No. 691 . The LIDB Query Transport charge also recovers the cost of the 56 Kbps CCS7 link between the RSTP and the SCP. The LIDB Query charge will recover the costs associated with the SCP functionality and with the maintenance and updating of the LIDB. Because both rate elements involve access components that will be shared by all LIDB

Query service customers, both rate elements will be applied on a per query basis. Further, the LIDB Query Transport charge and the LIDB Query charge are similar to the LIDB Query charges endorsed by the Commission in the Southwestern Bell Waiver Order, Memorandum Opinion and Order, DA 91-1258, released October 4, 1991. These rate elements are depicted on Exhibit 1, Pages 1 and 2. Also enclosed herein on Exhibits 2 and 3 are the cost support schedules for the LIDB Query Transport and LIDB Query charges.

#### Rate Development

Pursuant to Section 61.49(g) of the Commission's Rules, exchange carriers subject to price cap regulation are required to demonstrate that a new service generates a net revenue increase. In addition to fulfilling the requirements of Section 61.49(g) of the Rules, this filing also fulfills the requirements of Section 61.38 by supporting the new service rates with full cost studies. These cost studies illustrate a direct cost level and a fully distributed cost level.

The cost support schedules provided for the LIDB Query Transport and LIDB Query rate elements on Exhibits 2 and 3 include complete cost, demand, and revenue detail in compliance with Sections 61.38 and 61.49. Also included are ratios of direct unit costs to unit investment and direct unit costs to unit price. The representative 12-month period costs for the provision of LIDB Query

service are the annual costs resulting from a five-year levelized study. The five-year study period is preferable to a 12-month study period because the representative costs associated with the LIDB Query Transport and LIDB Query charges are not incurred in any single 12-month period. The LIDB Query rate development is based upon a shorter recovery period than the RSTP Port because the CCS7 network, in general, is expected to be in place longer than the software-intensive LIDB specific equipment. Levelization is a generally accepted principle for smoothing the erratic short run marginal cost effects of "lumpy investment".

Both exhibits contain an Investment and Cost Data schedule, a Return and Income Tax Calculation schedule, and a Demand and Revenue Analysis schedule. The following is an explanation of these schedules.

#### Investment and Cost Data

This schedule contains a projection of both fully loaded and direct unit costs for both the LIDB Query Transport and LIDB Query rate elements. The proposed rates are based on interstate investment costs and expenses within the California, Illinois and Indiana study areas. The most recent engineering, installation and vendor information associated with each rate element was identified. Total LIDB investment was allocated to the interstate jurisdiction based upon the relative forecasted traffic of interstate IXC LIDB traffic to all LIDB

traffic. An annual cost was computed by aggregating all California, Illinois, and Indiana costs together and dividing by the IXC interstate LIDB forecasted volume. These cost data are detailed in this schedule. The calculation of these costs and cost factors, appearing in Lines 1 through 24 of the Investment and Cost Data schedule, are described below.

1. Central Office Equipment - Investment and material cost of equipment required at the central office for the STP.
2. Net Salvage Value - Reflects the proportion of COE investment that is recoverable at the expiration of the book life of the equipment.
3. Net Material Cost - Total material cost less net salvage value.
4. Central Office Equipment Engineering Labor - Total of the labor costs associated with the design of the central office equipment.
5. Central Office Equipment Installation Labor - Total of the labor costs associated with the installation of the central office equipment.
6. Total Installed Cost - Represents the total investment required for the service.
- 7-9. Total Non-Reusable Cost - Sum of the installation, engineering and removal costs.
10. Total Net Investment-Installed Cost less net salvage.
11. Central Office Equipment Depreciation - Annual depreciation expense based on the book life of the equipment. The annual cost factor (% of the total investment column) is computed as one divided by the book life.



12. **Return** - The sum of average annual investment times 11.25% divided by the revenue life.
13. **Federal and State Income Tax** - The average annual tax expense, calculated using the annual return and appropriate tax factors. Tax computations are displayed on the "Return and Income Tax Calculations" schedule.
14. **Annual Non-Recoverable Cost** - Reflects a portion of the investment and labor costs which will be recovered within the minimum service period. The non-recoverable costs are computed as the present worth of capital (Net Investment) plus Income Tax effect spread over the book life (using a factor of 11.25%) and net of depreciation, return and tax expenses.
15. **Maintenance** - Annual maintenance expense based on annual expense factors for central office equipment.
16. **Administration** - Annual general and administrative expenses were developed using each company's overall administrative expense factor, including customer operations, corporate operations, plant non-specific and other general administrative expenses. Also, included in the administrative costs are the Data Base Administration Center (DBAC) and the Data Base Administration System (DBAS) database maintenance and update costs.
17. **Other Taxes** - Annual tax expenses other than federal and state income taxes.
18. **Other Expenses** - Represents all Right to Use fees associated with the SCP and the LIDB.

19. Total Annual cost - Sum of all annual expenses (Lines 11-18). This is the fully distributed costs of providing these services in California, Illinois and Indiana.
20. Total Annual Units - Average annual IXC queries forecasted over five years.
21. Cost per Query - The annual cost for each rate element is divided by the average annual queries to yield the charge per query.
- 22-24. Proposed Nonrecurring and Query Charge - Proposed monthly recurring cost, charge and unit cost/present value analysis.

#### Return and Income Tax Calculation

This schedule contains detailed calculations of the annual return and income tax amounts.

#### Demand and Revenue Analysis

LIDB interstate IXC query demand was based upon special IXC studies that identify the average ratio of interstate and intrastate usage as 60% interstate and 40% intrastate. The LIDB forecasts by carrier did not identify the state/interstate ratio. The ratio of interstate switched access MOUs to intrastate switched access MOUs was used as a surrogate to determine interstate LIDB query volume.

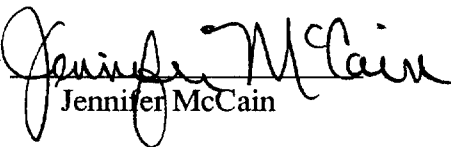
The net revenue analysis included in this schedule displays the projected annual revenue for the LIDB Query rate elements for a three-year period. In all cases, the proposed rate is expected to generate additional switched access net revenue, calculated on a present value basis over a three-year period.

### Conclusion

The proposed rates as discussed herein are demonstrated to be fully cost-based, reasonable and in compliance with Sections 61.38 and 61.49 of the Commission's Rules for price cap carriers.

### **CERTIFICATE OF SERVICE**

I, Jennifer McCain, hereby certify that copies of the foregoing "Direct Case of the GTE Telephone Operating Companies" have been mailed by first class United States mail, postage prepaid on the 21st day of April, 1992, to the following parties of record.

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